

OPEN MEETING AGENDA ITEM



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Arizona Corporation Commission

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FENNEMORE CRAIG, P.C.  
Jay L. Shapiro (No. 014650)  
2394 E. Camelback Road, Suite 600  
Phoenix, Arizona 85016  
Telephone (602) 916-5000  
Attorneys for Payson Water Co., Inc.

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

IN THE MATTER OF THE APPLICATION  
OF PAYSON WATER CO., INC., AN  
ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE FAIR VALUE  
OF ITS UTILITY PLANTS AND  
PROPERTY AND FOR INCREASES IN ITS  
WATER RATES AND CHARGES FOR  
UTILITY SERVICE BASED THEREON.

DOCKET NO: W-03514A-13-0111

**ORIGINAL**

IN THE MATTER OF THE APPLICATION  
OF PAYSON WATER CO., INC., AN  
ARIZONA CORPORATION, FOR  
AUTHORITY TO: (1) ISSUE EVIDENCE  
OF INDEBTEDNESS IN AN AMOUNT  
NOT TO EXCEED \$1,238,000 IN  
CONNECTION WITH INFRASTRUCTURE  
IMPROVEMENTS TO THE UTILITY  
SYSTEM; AND (2) ENCUMBER REAL  
PROPERTY AND PLANT AS SECURITY  
FOR SUCH INDEBTEDNESS.

DOCKET NO: W-03514A-13-0142

**RESPONSE TO DOCKETED  
LETTER FROM COMMISSIONER**

On May 28, 2014, Commissioner Pierce docketed a letter requesting that Payson Water Company ("PWC" or the "Company") supply sample billing information for Mesa del Caballo ("MDC") customers from May through September of 2013 in order that the Commission might consider modifications to the Purchased Water Adjuster Mechanism ("PWAM") approved in Decision No. 74484 (May 22, 2014). This is the Company's response to that letter, which response comes with two caveats.

First, PWC is unable to provide specific customer information for the requested time period because the current owner does not have access to the May 2013 billings that occurred under the prior ownership. The Company has subsequently changed customers service centers (in Jan. 2014), so while system-specific information is available, access to

1 individual customer accounts is not readily available, and may be expensive and time-  
2 consuming to acquire from the previous vendor. Also, the period in question in the  
3 Commissioner's letter was a period in which the system was in very advanced stages of  
4 water curtailment and shortage – therefore any usage data may not be representative of  
5 average use under normalized conditions. As a result of the Company's efforts to connect  
6 to the Town of Payson – and the efforts of Commission Staff to assist the Company in  
7 securing WIFA financing – and the Commission's own approval of the PWAM, only this  
8 month has the system been able to resume what the Company hopes will become normal  
9 operation (after years of curtailment and hauling).

10 Second, while PWC appreciates the opportunity to address any issues of concern  
11 raised by the Commissioners, PWC respectfully asserts that modification of the PWAM is  
12 not in the public interest, in part for the reasons illustrated by this response.

13 Specifically, in lieu of customer bills, which are either not available or could not be  
14 prepared in a timely fashion for this response, the Company submits **Attachment 1**.  
15 The attachment reflects actual consumption for May through September 2013 for low,  
16 medium, and high usage MDC customers, and calculates estimated water augmentation  
17 costs using the (1) PWAM rate and (2) hauling surcharge rate.

18 With those significant caveats established, set forth below are the best responses  
19 available to Commissioner Pierce's specific information requests with an explanation of  
20 PWC's calculations for each customer.

21 **First Request**

22 Select a customer who was a low usage customer in May 2013, i.e.  
23 usage fell within the first tier, and provide the bills for that customer  
24 for each month from May through September of 2013. Please redact  
all identifying information from the customer.

25 The Company is providing the information for customers who used 2,900 gallons a  
26 month. The MDC system has spent years in advanced curtailment stages, and thus median

usage in such a period is, by definition, low usage. The Company has therefore selected the median use data from the test year.<sup>1</sup>

**Second Request**

Select a customer who was a medium usage customer in May 2013, i.e. usage fell within the second tier, and provide the bills for that customer for each month from May through September of 2013. Please redact all identifying information from the customer.

The Company used 4,000 gallons a month as the usage, which is approximately 1,100 gallons higher than the usage by the median user in the test year, or, in percentage terms, nearly 40 percent higher than low use data.

**Third Request**

Select a customer who was a high usage customer in May 2013, i.e. usage fell within the third tier, and provide the bills for that customer for each month from May through September of 2013. Please redact all identifying information from the customer.

The Company used 12,000 gallons a month for “high usage” because, according to city-data.com, Payson has an average household size of 2.2 persons. According to the Arizona Water Meter at westernresourceadvocates.org, most households in Arizona use between 100 and 150 gallons per capita, per day. One can reasonably assume average usage at 2.2 people per home, using 125 gallons a day per person, to be an estimated 8,250 gallons. The Company then assumed about a 40 percent higher usage (similar to its first adjustment) and estimated 12,000 gallons a month for the “high usage” customer.

In closing, as reflected in Attachment 1, the PWAM bill calculation is already fairly complicated and PWC respectfully suggests that to vary from the current form by adding any additional variables might increase the difficulty in explaining the mechanism to customers, as well as invite greater opportunity for calculation errors. Moreover, it is clear that the current PWAM provides a significant cost savings to customers.

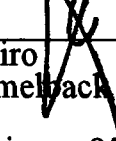
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<sup>1</sup> See Recommended Opinion and Order (May 27, 2014) at Attachment A.

1 The Company projects that the PWAM surcharge will constitute about 30 percent of any  
2 low and medium usage level customer bills during months with high amounts of  
3 purchased water (the vast majority of PWC customers). Furthermore, for most of the  
4 example months, the PWAM represents less than 10 percent of the total estimated bill.  
5 As such, the Company respectfully continues to support the PWAM recommended by  
6 Staff and adopted by the Commission last month.

7 RESPECTFULLY SUBMITTED this 2nd day of June, 2014.

8 FENNEMORE CRAIG, P.C.

9  
10 By   
11 Jay L. Shapiro  
12 2394 E. Camelback Road  
13 Suite 600  
Phoenix, Arizona 85016  
Attorneys for Payson Water Co., Inc.

14 **ORIGINAL** and thirteen (13) copies  
15 of the foregoing were filed  
this 2nd day of June, 2014, with:

16 Docket Control  
17 Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

18 **COPY** of the foregoing was hand-delivered  
19 this 2nd day of June, 2014, to:

20 Chairman Bob Stump  
21 Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

22 Commissioner Gary Pierce  
23 Arizona Corporation Commission  
1200 W. Washington Street  
24 Phoenix, AZ 85007

1 Commissioner Brenda Burns  
Arizona Corporation Commission  
2 1200 W. Washington Street  
Phoenix, AZ 85007  
3  
4 Commissioner Bob Burns  
Arizona Corporation Commission  
5 1200 W. Washington Street  
Phoenix, AZ 85007  
6  
7 Commissioner Susan Bitter Smith  
Arizona Corporation Commission  
8 1200 W. Washington Street  
Phoenix, AZ 85007  
9  
10 Dwight D. Nodes  
Assistant Chief Administrative Law Judge  
Arizona Corporation Commission  
11 1200 W. Washington Street  
Phoenix, AZ 85007  
12  
13 Robin Mitchell  
Brian Smith  
Legal Division  
Arizona Corporation Commission  
14 1200 W. Washington Street  
Phoenix, AZ 85007  
15  
16 **COPY** of the foregoing was mailed  
this 2nd day of June, 2014, to:  
17  
18 Kathleen M. Reidhead  
14406 S. Cholla Canyon Dr.  
Phoenix, AZ 85044  
19  
20 Thomas Bremer  
6717 E. Turquoise Ave.  
Scottsdale, AZ 85253  
21  
22 Bill Sheppard  
6250 N. Central Ave.  
Phoenix, AZ 85012  
23  
24 J. Stephen Gehring  
8157 W. Deadeye Rd.  
Payson, AZ 85541  
25  
26 Suzanne Nee  
2051 E. Aspen Dr.  
Tempe, Arizona 85282

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Glynn Ross  
405 S. Ponderosa  
Payson, AZ 85541

By: 

9201250.1/073283.0006

# **ATTACHMENT 1**



Current Town of Payson Water Rates:		PWCo Proposed Water Rates (as recommended in ROO):	
Cost of first 20,000 Gal:	\$116.78	Base Rate:	\$23.00
Cost of each 1000 Gal above:	\$6.86	First Tier (up to 3,000 gal)	\$4.00 per 1000 gal.
Tax Rate on all Purchases:	9.72%	Second Tier (up to 10,000 gal)	\$7.66 per 1000 gal.
		Third Tier (above 10,000 gal)	\$9.62 per 1000 gal.

	CUSTOMER #1 Avg. Usage	CUSTOMER #2 Medium Usage	CUSTOMER #3 High Usage
Monthly Use (Gal)	1434		
Monthly Use (Gal)		4000	
Monthly Use (Gal)			12000
<b>Estimated Bill using ROO Recommendations:</b>			
Estimated Bill using ROO (No TOP Purchases):	\$28.74	\$42.66	\$107.88

Purchased Gallons from TOP (using 2013 actual numbers):				
May-June Billing Cycle PWAM Calculation using 5/22/14 Decision 74484				
Total Consumption (gal):	1467000			
TOP Purchased Water (gal):	509160			
% of water sold purchased from TOP:	34.71%			
Cost of TOP Water (incl. tax):	\$3,809.94			
Effective Actual Commodity Rate minus avoided costs (\$.60) (per 1000 gal):	\$6.88			
PWAM Surcharge:		\$3.43	\$9.56	\$28.67
Surcharge under Previous Augmentation Tariff now replaced by PWAM:	\$0.022108	\$31.70	\$88.43	\$265.30
Customer's Savings using PWAM vs. Hauling Surcharge:		\$28.28	\$78.88	\$236.63
PWCo Tariff (per ROO):				
Base Rate:		\$23.00	\$23.00	\$23.00
First Tier Consumption:		\$5.74	\$12.00	\$12.00
Second Tier Consumption:		N/A	\$7.66	\$53.65
Third Tier Consumption:		N/A	N/A	\$19.23
<b>Total Estimated Bill Including PWAM:</b>		<b>\$28.74</b>	<b>\$42.66</b>	<b>\$107.88</b>

Purchased Gallons from TOP (using 2013 actual numbers):				
June-July Billing Cycle PWAM Calculation using 5/22/14 Decision 74484				
Total Consumption (gal):	993050			
TOP Purchased Water (gal):	664125			
% of water sold purchased from TOP:	66.88%			
Cost of TOP Water (incl. tax):	\$4,976.33			
Effective Actual Commodity Rate minus avoided costs (\$.60) (per 1000 gal):	\$6.89			
PWAM Surcharge:		\$6.61	\$18.44	\$55.32
Surcharge under Previous Augmentation Tariff now replaced by PWAM:	\$0.036710	\$52.64	\$146.84	\$440.52
Customer's Savings using PWAM vs. Hauling Surcharge:		\$46.03	\$128.40	\$385.20
PWCo Tariff (per ROO):				
Base Rate:		\$23.00	\$23.00	\$23.00
First Tier Consumption:		\$5.74	\$12.00	\$12.00
Second Tier Consumption:		N/A	\$7.66	\$53.65
Third Tier Consumption:		N/A	N/A	\$19.23
<b>Total Estimated Bill Incl. PWAM:</b>		<b>\$35.35</b>	<b>\$61.10</b>	<b>\$163.20</b>

Purchased Gallons from TOP (using 2013 actual numbers):				
July-Aug Billing Cycle PWAM Calculation using 5/22/14 Decision 74484				
Total Consumption (gal):	1001506			
TOP Purchased Water (gal):	142234			
% of water sold purchased from TOP:	14.20%			
Cost of TOP Water (incl. tax):	\$1,048.16			
Effective Actual Commodity Rate minus avoided costs (\$.60) (per 1000 gal):	\$6.77			
PWAM Surcharge:		\$1.38	\$3.85	\$11.54
Surcharge under Previous Augmentation Tariff now replaced by PWAM:	\$0.02			
Surcharge under Previous Augmentation Tariff now replaced by PWAM:	\$0.013225	\$18.96	\$52.90	\$158.70
Customer's Savings using PWAM vs. Hauling Surcharge:		\$18.96	\$52.90	\$158.70
PWCo Tariff (per ROO):				
Base Rate:		\$23.00	\$23.00	\$23.00
First Tier Consumption:		\$5.74	\$12.00	\$12.00
Second Tier Consumption:		N/A	\$7.66	\$53.65
Third Tier Consumption:		N/A	N/A	\$19.23
<b>Total Estimated Bill Incl. PWAM:</b>		<b>\$30.11</b>	<b>\$46.51</b>	<b>\$119.42</b>

Purchased Gallons from TOP (using 2013 actual numbers):				
Aug-Sept. Billing Cycle PWAM Calculation using 5/22/14 Decision 74484				
Total Consumption (gal):	949670			
TOP Purchased Water (gal):	31694			
% of water sold purchased from TOP:	3.34%			
Cost of TOP Water (incl. tax):	\$216.15			
Effective Actual Commodity Rate minus avoided costs (\$.60) (per 1000 gal):	\$6.22			
PWAM Surcharge:		\$0.30	\$0.83	\$2.49
Surcharge under Previous Augmentation Tariff now replaced by PWAM:	\$0.003445	\$4.94	\$13.78	\$41.34
Customer's Savings using PWAM vs. Hauling Surcharge:		\$4.64	\$12.95	\$38.85
PWCo Tariff (per ROO):				
Base Rate:		\$23.00	\$23.00	\$23.00
First Tier Consumption:		\$5.74	\$12.00	\$12.00
Second Tier Consumption:		N/A	\$7.66	\$53.65
Third Tier Consumption:		N/A	N/A	\$19.23
<b>Total Estimated Bill Incl. PWAM:</b>		<b>\$28.74</b>	<b>\$42.66</b>	<b>\$107.88</b>